PUBLIC ACCOUNTS

OF THE

GOVERNMENT OF NUNAVUT

FOR THE YEAR ENDED MARCH 31, 2004

HONOURABLE DAVID SIMAILAK

Minister of Finance

THE HONOURABLE ANN M. HANSON
COMMISSIONER OF NUNAVUT

I have the honour to present the Public Accounts of Nunavut for the fiscal year ended March 31, 2004. I would ask that these accounts be laid before the Legislative Assembly in accordance with the *Financial Administration Act*, R.S.N.W.T. 1988, c.F-4, S. 74 as amended, and duplicated for Nunavut, and the *Nunavut Act*, S.C. 1993, C.28, s.44.

Honourable David Simailak
Minister of Finance

Government of Nunavut
Iqaluit, Nunavut
May 24, 2005

CONSOLIDATED FINANCIAL STATEMENTS

Public Accounts of the
Government of Nunavut
March 31, 2004

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STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of these consolidated financial statements for the Government of Nunavut, and related information contained in the Public Accounts, is the responsibility of management of the Department of Finance.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for governments recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. When GAAP permits alternative accounting methods, management has chosen those it believes are most appropriate. Where required, management's best estimates and judgments have been applied in the preparation of these statements.

The Government fulfills its accounting and reporting responsibilities, through the Department of Finance, by maintaining systems of financial management and control. These systems are continually enhanced and modified to provide accurate information, to safeguard and control the Government's assets, and to ensure that all transactions are in accordance with the *Financial Administration Act*.

The Public Accounts are referred to the Standing Committee on Government Operations and Services after they have been tabled in the Legislative Assembly. The recommendations of this committee will be reviewed and acted on, where appropriate, to improve financial management and control as well as reporting practices, and the systems of internal controls.

The Auditor General of Canada conducts an annual audit of the consolidated financial statements in order to express an opinion as to whether the statements present fairly the financial position, results of operations, change in net debt and cash flows for the year. During the course of the audit, she also examines transactions that have come to her notice, to ensure that they are, in all significant respects, within the statutory powers of the Government and those organizations included in the consolidation. The Auditor General's opinion is included with the consolidated financial statements.

After completion of the audit, the Auditor General provides additional information, comments, and recommendations in her annual report to the Legislative Assembly of Nunavut.

The fundamental purpose of the financial statements is to provide information to the Legislative Assembly and the public as to the full nature and extent of the Government's financial affairs. The Government is complex, and no one measure can capture all aspects of its finances. Together the four main financial statements provide five messages. The consolidated statement of financial position illustrates both net debt and accumulated surplus. Net debt is a measure of past costs which will have to be paid in the future. Accumulated surplus represents the government's total financial and non-financial resources and obligations. The consolidated statement of operations gives an indication of whether or not the government has mantained its assets during the year. The consolidated statement of net debt reports whether revenues were able to cover the spending. Finally, the consolidated statement of cash flows shows sources and uses of cash during the year.

Honourable David Simailak
Minister of Finance

Robert Vardy
Deputy Minister of Finance
and Comptroller General

AUDITOR'S REPORT

To the Legislative Assembly of Nunavut

I have audited the consolidated statement of financial position of the Government of Nunavut as at March 31, 2004 and the consolidated statements of operations, change in net debt and cash flows for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 2004 and the results of its operations, the change in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector recommended by the Canadian Institute of Chartered Accountants.

Under section 32 of the Nunavut *Financial Administration Act* (FAA), government departments are not allowed to spend more money than approved by the Legislative Assembly of Nunavut. Note 18 of these consolidated financial statements discloses that three departments did not respect this requirement. Total over-expenditures were $9,201,000.

Under section 44 of the *Nunavut Act* (Canada), the government is required to table its consolidated financial statements in the Legislative Assembly by December 31 each year for the fiscal year ended in March that year. As I have reported in my reports to Nunavut's Legislative Assembly, the Government has never met this requirement. For the first four years of Nunavut's operations, the Government tabled its consolidated financial statements some 5 or 6 months after the deadline, and some 14 or 15 months after year end. For this fifth year, the Government has again not tabled its consolidated financial statements by the deadline.

Further, in my opinion, except for the over-expenditures detailed in Note 18 and the failure to meet the deadline for tabling consolidated financial statements described in the above paragraphs, the transactions of the Government and of those organizations listed in Note 1 to the consolidated financial statements that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the Government's powers under the *Nunavut Act*, the Nunavut *Financial Administration Act* and regulations and the specific operating authorities disclosed in Note 1.

Additional information and comments on the consolidated financial statements and this opinion will be included in my next report to the Legislative Assembly of Nunavut.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 24, 2005

GOVERNMENT OF NUNAVUT

Consolidated Statement of Financial Position
as at March 31, 2004
(thousands of dollars)

	2004	2003
Liabilities		
Accounts payable and accrued liabilities (Note 9)	$ 163,032	$ 165,938
Employee future benefits (Note10 (a))	18,672	15,757
Pension liabilities (Note 10 (b))	3,209	2,640
Long term debt (Note 11)	57,407	58,944
Capital lease obligations (Note 14)	138,302	132,519
Total liabilities	380,622	375,798
Financial assets		
Cash and temporary investments (Note 3)	47,398	26,207
Designated cash and investments (Note 4)	2,829	2,251
Long term investments (Note 5)	4,043	2,010
Due from Canada	70,664	141,675
Revenues receivable (Note 6)	46,088	46,310
Bulk fuels and other inventories for resale	24,893	28,874
Loans receivable (Note 7)	16,074	18,313
Investment in Qulliq Energy Corporation (Note 8)	14,101	19,552
Total financial assets	226,090	285,192
Net debt	(154,532)	(90,606)
Non-financial assets (Note 2 i))		
Tangible capital assets (Schedule B)	1,003,815	927,442
Prepaid assets	8,120	1,663
Total non-financial assets	1,011,935	929,105
Accumulated surplus	$ 857,403	$ 838,499

Commitments (Note 15)
Contingencies (Note 16)

Approved:

Honourable David Simailak
Minister of Finance

Robert Vardy
Deputy Minister of Finance
and Comptroller General

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Operations
for the year ended March 31, 2004
(thousands of dollars)

	2004	2003
Revenues		
From Canada (Schedule A)	$ 789,540	$ 749,225
Revenues generated by Nunavut (Schedule A)	95,986	92,886
Total revenues	885,526	842,111
Expenses (Note 12)		
Health and Social Services	191,817	181,357
Finance	182,269	162,528
Education	177,741	167,368
Community Government and Transportation	97,553	84,423
Public Works and Services	78,635	79,864
Justice	48,243	45,907
Sustainable Development	36,024	35,750
Other	48,889	45,455
Total expenses	861,171	802,652
Excess of revenues over expenses	24,355	39,459
Net loss - Qulliq Energy Corporation (Note 8)	(5,451)	(7,978)
Projects for Canada and others		
Revenues	30,001	28,636
Expenses	(30,001)	(28,636)
Surplus for the year	18,904	31,481
Accumulated surplus, beginning of the year	838,499	807,018
Accumulated surplus, end of the year	$ 857,403	$ 838,499

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Change in Net Debt
as at March 31, 2004
(thousands of dollars)

	2004	2003
Surplus for the year	$ 18,904	$ 31,481
Tangible capital assets		
Acquisition	(115,044)	(96,450)
Amortization	35,727	34,391
Disposals and write downs	2,944	2,607
	(76,373)	(59,452)
Net acquisition of prepaid assets	(6,457)	(197)
Increase in net debt	(63,926)	(28,168)
Net debt, beginning of the year	(90,606)	(62,438)
Net debt, end of the year	$ (154,532)	$ (90,606)

The accompanying notes and schedules are an integral part of the consolidated financial statements

GOVERNMENT OF NUNAVUT

Consolidated Statement of Cash Flows

for the year ended March 31, 2004

(thousands of dollars)

	2004	2003
Cash provided by (used for) government operations:		
Grants from Canada	$ 894,280	$ 698,707
Taxes	46,261	50,500
Other government revenues	112,634	106,657
Grants and contributions	(137,249)	(153,185)
Salaries and employee benefits	(280,844)	(242,972)
Goods and services acquired	(478,517)	(450,779)
Cash provided by government operations	156,565	8,928
Cash provided by (used for) capital activities:		
Acquisition of capital assets, net of long term debt assumed	(118,609)	(97,783)
Sale of tangible capital assets	3,122	-
Cash used for capital activities	(115,487)	(97,783)
Cash provided by (used for) investing activities:		
Loans to municipalities, businesses and individuals	(2,601)	(3,872)
Contribution to designated cash and investments	(579)	(2,411)
Acquisition of long term investments	(2,033)	(2,010)
Loan repayments received by the government	6,222	4,743
Cash provided by (used for) investing activities	1,009	(3,550)
Cash used for financing activities:		
Payment of principal and interest under capital leases	(15,200)	(15,459)
Payment of principal and interest on long term debt	(5,696)	(5,142)
Cash used for financing activities	(20,896)	(20,601)
Increase (decrease) in cash and temporary investments	21,191	(113,006)
Cash and temporary investments, beginning of the year	26,207	139,213
Cash and temporary investments, end of the year	$ 47,398	$ 26,207

The accompanying notes and schedules are an integral part of the consolidated financial statements

1 AUTHORITY AND OPERATIONS

a) Authority and government reporting entity

The Government of Nunavut (the Government) operates under the authority of the *Nunavut Act (Canada)*. The Government has an elected legislative assembly which annually authorizes all disbursements except those specifically authorized by statute.

These consolidated financial statements are prepared in accordance with the *Nunavut Act (Canada)* and the Nunavut *Financial Administration Act*. The following organizations comprise the reporting entity represented by these consolidated financial statements. These organizations are accountable to, and are either owned or controlled by the Government.

All have a March 31 fiscal year end, except for Nunavut Arctic College which has a June 30 year end.

Entities fully consolidated in these financial statements	**Authority for operations**
Government of Nunavut, including those departments set out in the Government's Main Estimates	*Financial Administration Act*
Revolving funds including the Petroleum Products Revolving Fund and the Liquor Revolving Fund	*Revolving Funds Act*
Nunavut Housing Corporation	*Nunavut Housing Corporation Act*
Nunavut Arctic College	*Public Colleges Act*
Nunavut Development Corporation	*NWT Development Corporation Act**
Nunavut Business Credit Corporation	*Nunavut Business Credit Corporation Act*

Entities presented in these financial statements using modified equity accounting	**Authority for operations**
Qulliq Energy Corporation	*Qulliq Energy Corporation Act*

* as duplicated for Nunavut by Section 29 of the *Nunavut Act (Canada)*

b) A comparison of budgeted and actual operations is provided in the Government's unaudited, unconsolidated financial statements which are included in the Government's Public Accounts.

2 SIGNIFICANT ACCOUNTING POLICIES

Section 45 of the *Nunavut Act (Canada)* requires that the Government's consolidated financial statements be prepared in accordance with accounting principles recommended by the Canadian Institute of Chartered Accountants.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accordingly, the Government has adopted the recommendations of the Public Sector Accounting Board as the primary basis of its accounting policies. Other authoritative pronouncements are used to supplement the recommendations of the Public Sector Accounting Board, where appropriate.

a) Principles of consolidation

All entities included in the reporting entity other than the Qulliq Energy Corporation (QEC) are fully consolidated, and significant transactions and balances between consolidated entities are eliminated.

The QEC is a Government business enterprise, and is accounted for using modified equity accounting. Under this method, the Government only reports its investment in the QEC, and the corporation's net income (loss). Financial transactions and balances between the QEC and other entities in the reporting entity are not eliminated.

b) Measurement uncertainty

Canadian generally accepted accounting principles for governments recommended by the Canadian Institute of Chartered Accountants require the Government to make estimates and assumptions that affect the amounts of certain assets, liabilities, revenues, and expenses reported in these financial statements. Some of the more significant areas where estimates have been used to prepare these financial statements include:

(i) Income taxes collected by Canada on the Government's behalf, and grant revenue from Canada in areas such as the Canada Health and Social Transfer. These collections and grants are subject to revision by Canada in future years; and

(ii) Allowance for doubtful accounts, loan valuation allowances, provision for losses on loan guarantees and employee future benefits.

By their nature, estimates are subject to measurement uncertainty. Estimates contained in these financial statements are the Government's best estimates at the date these statements were prepared. However, changes to these estimates might have a significant effect on future financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Employee future benefits

Non-Pension

Under the terms and conditions of employment, government employees may earn non pension benefits for retirement, severance and removal costs based on years of service. The estimated liability and related expenses for retirement, severance and removal costs are recorded as employees earn these benefits. The cost of the benefits has been determined based on management's best estimates.

Pension

Government employees participate in the Public Service Pension Plan administered by the Government of Canada. The Government contributes at a rate of 2.14 times (2003- 2.14 times) the employee's contribution. The Government's contributions are charged as an expense on a current year basis and represent the total pension obligations.

Pension benefits to Members of the Legislative Assembly are determined on an actuarial basis. This is done to determine the current value of future entitlement and uses various estimates. When actual experience varies from estimates, the adjustments needed are amortized over the estimated average remaining service lives of the contributors.

d) Obligations under leases

The Government classifies its leases for buildings and equipment as either capital or operating leases, as appropriate.

Capital leases

Those leases which transfer substantially all the benefits and risks of ownership of property to the Government are accounted for as both a tangible capital asset and a related capital lease obligation. Both are initially recorded at the present value of the minimum lease payments, effective at the beginning of the lease.

Operating leases

Operating leases are those leases where substantially all the benefits and risks of ownership are not transferred to the Government. Lease payments under operating leases are expensed.

e) Cash and investments

Temporary investments are valued at the lower of cost and market value. Interest income is recorded on an accrual basis.

Long term investments are valued at cost with premiums and discounts amortized over the period to maturity. Unrealized losses are only recognized when it is determined there is a permanent decline in the value of investments. Interest income, gains and losses on disposal and adjustments to record any impairment in value, that is other than temporary, are included in revenue.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Inventories for resale

Inventories for resale include bulk fuel, liquor and arts and crafts. Bulk fuel and arts and crafts are valued at the lower of cost and net recoverable value. Liquor inventory is valued at the lower of cost and replacement cost.

g) Loans receivable

Loans receivable are valued at the lower of cost and net recoverable value. Valuation allowances recorded to reduce loans receivable are based on all circumstances known at the date these financial statements are prepared, including past events and current conditions. Interest revenue is not accrued when the collectibility of either principal or interest is not reasonably assured.

h) Investment in Qulliq Energy Corporation (formerly Nunavut Power Corporation)

The Government is the sole shareholder of the Qulliq Energy Corporation (QEC), a Crown corporation providing utility services to Nunavut Territory. Operations of QEC are accounted for in accordance with the modified equity basis of accounting.

i) Non-financial assets

Tangible capital and other non-financial assets are accounted for by the Government as they can be used to provide government services in future periods. Therefore, these assets will not provide resources to discharge the liabilities of the Government.

j) Tangible capital assets

Tangible capital assets include buildings, roads, equipment, etc. whose economic life extends beyond a fiscal year and are intended to be used on an ongoing basis for delivering services.

Tangible capital assets are recorded at cost less accumulated amortization. Tangible capital assets, when placed in service, are amortized on a straight line basis over their economic life.

Gifted and cost share tangible capital assets from Canada are recorded at their fair market value, upon receipt, with the gifted or cost shared portion shown as deferred revenue. This deferred revenue is amortized into revenue on the same basis as the related asset is amortized.

Tangible capital assets under construction or development are recorded as work in progress with no amortization until the asset is placed into service.

Works of art, historical treasures and crown lands are not recorded in the consolidated financial statements.

k) Revenues

Unless otherwise stated, all revenues are reported on an accrual basis in the period in which transactions or events give rise to the revenues. Specific revenue accounting policies are as follows:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Grant from Canada

Through the end of 2003-2004, the Government received an annual formula financing grant from Canada. In the past, the final amount of the grant for any one fiscal year was subject to adjustment for a number of years. However, the recent *Act to amend the Federal-Provincial Fiscal Arrangements Act and to make consequential amendments to other Acts (fiscal equalization payments to the provinces and funding to the territories)* (Canada) made two fundamental changes.

First, for fiscal years 2004-2005 and beyond, a new funding mechanism replaces the formula financing arrangement. Second, grants for 2003-2004 and earlier are finalized based on Canada's calculations performed in Spring 2005. Revenue in the current year is based on these final calculations from Canada, less payments received to date.

Should any other adjustments arise in the future concerning 2003-2004 and earlier years, they will be accounted for in the year in which federal legislation authorizes the adjustment.

Other transfers from Canada

Other transfers from Canada are recognized as revenue in the period that the events giving rise to the transfer occurs, as long as: (i) the transfer is authorized, (ii) the Government has met eligibility criteria, if any; and (iii) a reasonable estimate of the amount of the transfer can be made.

Government transfers received before these criteria are met are deferred and included in accounts payable and accrued liabilities until the criteria are met.

Taxes and general revenues

Income tax revenue is recognized on an accrued basis. Taxes, under the *Income Tax Act*, are collected by Canada on behalf of the Government under a tax collection agreement and are remitted to the Government monthly. The remittances are based on Canada's Department of Finance estimates for the taxation year, which are periodically adjusted until the income tax assessments for that year are final. Changes to personal and corporate income tax estimates can have a significant impact on the grant from Canada.

Property taxes and school levies are assessed on a calendar year basis, and are recorded on an accrual basis in the fiscal year in which the calendar year ends.

Other taxes are accrued based on information provided by those parties which collect tax on the Government's behalf.

l) Expenses

Expenses are recorded on an accrual basis.

Grants and contributions are recorded as expenses when the following criteria are all met: (i) the grant or contribution has the necessary authorization; (ii) the recipient has met eligibility criteria, if any; and (iii) a reasonable estimate of the amount of the transfer can be made.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants or contributions paid prior to all three conditions being met are accounted for as prepaid expenses until all conditions are met.

3 CASH AND TEMPORARY INVESTMENTS

Temporary investments are placed in high grade, short term income producing assets.

The portfolio yield for the year ended March 31, 2004 varied from 1.00% to 5.46% (2003 - 1.00% to 6.10%). As at March 31, 2004 the Government held temporary investments in the amount of $18,445,000 (2003 - $16,819,000). The average term to maturity is 51 days (2003 - 84 days).

4 DESIGNATED CASH AND INVESTMENTS

This amount is designated for the purpose of meeting the obligations of the retirement funds for the Legislative Assembly. These amounts cannot be used to discharge other obligations incurred by the Government. The assets in the investment portfolio are managed by a third party. The Statement of Investment Policy establishes the eligible classes of securities, categories of issuers, limits and terms. The market value of the investment portfolio at March 31, 2004 was $3,447,000 (2003 - $2,252,000) with a return of 24.29% (2003 - (13.17%))

5 LONG TERM INVESTMENTS

These investments include high grade, long term income producing instruments of the Government of Canada, a provincial government and a trust company, with terms varying in these cases from one to thirty-two years. The effective rates of return are 3.13%, 4.50% and 4.75%, respectively (2003 - 3.26%, N/A and 4.75% respectively). The portfolio's average yield in 2004 was 3.85% (2003 - 3.57%). Government of Canada investments amounted to $2,064,000 (2003 - $1,031,000), the provincial investment amounted to $1,000,000 (2003 - nil) and the trust company investments were $979,000 (2003 - $979,000).

6 REVENUES RECEIVABLE

	2004 (thousands of dollars)	2003
Local housing associations and authorities	$ 985	$ 343
Other accounts receivable	51,859	46,008
Due from Government of Northwest Territories	-	7,738
Less: allowance for doubtful accounts	(6,756)	(7,779)
	$ 46,088	$ 46,310

7 LOANS RECEIVABLE

	2004	2003
	(thousands of dollars)	
Mortgage loans from Nunavut Housing Corporation to individuals with a maximum maturity of 25 years bearing interest between 6.00% and 14.25%, net of valuation allowance of $7,255,000 (2003 -$6,461,000)	$ 3,974	$ 4,236
Loans from Nunavut Business Credit Corporation to businesses with a maximum maturity of 25 years, bearing interest between 2.98% and 11.50%, net of valuation allowance of $613,000 (2003 - $538,000)	8,328	9,384
Loans to municipalities due in instalments to 2017 bearing interest between 0% and 9.0%, net of valuation allowance of $437,000 (2003 - $435,000)	2,022	3,066
Student Loan Fund loans due in instalments to 2016, bearing interest between 2.5% and 12.5%, net of valuation allowance and allowance for forgiveness of $1,808,000 (2003 - $1,668,000)	1,416	1,305
Other	334	322
	$ 16,074	$ 18,313

The carrying value, at the lower of cost or net recoverable value, is estimated to be the fair value of these loans receivable due to the valuation allowances provided.

8 INVESTMENT IN QULLIQ ENERGY CORPORATION (FORMERLY NUNAVUT POWER CORPORATION)

The governments of the Northwest Territories and Nunavut agreed to divide the net assets of the Northwest Territories Power Corporation (NTPC) on April 1, 2001 as if the corporation had been divided on April 1, 1999. All corporate operations within the Nunavut Territory were taken over by Nunavut Power Corporation (NPC) on this date. The allocation of the NTPC assets, liabilities and shareholder's equity between its Nunavut operations to NPC and its Northwest Territories operations to the NTPC was governed by two agreements: the Transition Agreement between the Government of the Northwest Territories (GNWT) and the Interim Commissioner of Nunavut and the Transfer of Interest Agreements between the GNWT, Government of Nunavut (GN), NTPC and NPC.

Summary financial information of the Qulliq Energy Corporation is presented below.

March 31	2004	2003
	(thousands of dollars)	
Assets	$ 138,548	$ 138,223
Liabilities	(124,447)	(118,671)
Investment in Qulliq Energy Corporation	$ 14,101	$ 19,552

8 INVESTMENT IN QULLIQ ENERGY CORPORATION (continued)

Statement of Income and Retained Earnings
For the year ended March 31

	2004	2003
	(thousands of dollars)	
Revenues	$ 58,494	$ 52,844
Expenses	(63,945)	(60,822)
Net loss	(5,451)	(7,978)
Surplus, beginning of year	19,552	27,530
Surplus, end of year	$ 14,101	$ 19,552

Included in the above are revenues from, and expenditures to, entities in the Government's reporting entity of $17,893,000 (2003 - $14,315,000) and $10,854,000 (2003 - $10,055,000), respectively.

Loan Guarantees

As part of its financing, the Qulliq Energy Corporation has arranged various credit facilities at different terms and interest rates. The Government of Nunavut has provided a guarantee for these credit facilities.

	2004	2003
	(thousands of dollars)	
Bank credit facility, interest at prime less 0.25%.	$ -	$ 9,426
20 year amortizing debenture at interest rate of 6.809%.	61,000	61,000
Floating rate capital loan facility, interest at prime less 0.25%.	16,000	7,362
Total guarantees provided	$ 77,000	$ 77,788

The bank credit facility limit is $12 million. Subsequent to March 31, 2004, the interest charged changed to prime.

The floating rate capital loan facility limit is $16 million.

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2004	2003
	(thousands of dollars)	
Payable to related parties		
Qulliq Energy Corporation	$ 1,690	$ 3,988
Local housing associations and authorities	8,190	5,813
	9,880	9,801
Other		
Accounts payable	48,645	55,732
Other liabilities, payroll deductions, and contractor's holdbacks	45,811	35,229
Vacation pay and lieu time	15,597	13,286
Due to Canada	8,702	8,103
Due to Government of Northwest Territories	14,647	27,028
Deferred revenue	19,750	16,759
	153,152	156,137
	$ 163,032	$ 165,938

10 EMPLOYEE FUTURE BENEFITS

a) Non-Pension

	2004	2003
	(thousands of dollars)	
Removal	$ 11,047	$ 6,821
Retirement and severance	7,625	8,936
	$ 18,672	$ 15,757

b) Pension

i) Public Service Pension Plan

Both the Government and its employees make contributions to the Public Service Pension Plan administered by Canada. In 2004, the Government's contributions were $ 20,187,000 (2003 - $19,455,000).

The amount of the Government's contributions are set by Canada, and represent the Government's sole obligation under this plan. The Government is not required under present legislation to make contributions with respect to actuarial deficiencies of the plan.

ii) Legislative Assembly Retiring Allowance Plans

The Government of Nunavut sponsors two defined benefit pension plans for Members of the Legislative Assembly. Both plans are administered by the Management and Services Board of the Legislative Assembly.

10 EMPLOYEE FUTURE BENEFITS (continued)

The first plan is a registered and contributory defined benefit pension plan established under the *Legislative Assembly Retiring Allowances Act* (LARAA). The Office of the Legislative Assembly, Government of Nunavut, operates a separate pension fund in trust to administer LARAA contributions and allowances. The plan came into effect on April 1, 1999.

The second plan is a voluntary non-registered, non-contributory defined benefit pension plan established under the *Supplementary Retiring Allowances Act* (SRAA) for Members who elect to participate. Payments and expenses related to the SRAA are paid from the Government's consolidated revenue fund. The plan came into effect during the 2001-2002 fiscal year, and provides for benefits retroactive to April 1, 1999.

The last actuarial valuation of the plans was on April 1, 2004. The valuation is based on a number of assumptions about future events including inflation rates, interest rates, increases in remuneration, and mortality. Assumptions used reflect the Government's best estimates. These include a rate of return on assets of 7.0 % and inflation of 4.0 % for the LARAA as well as a rate of return on assets of 6.5 % and inflation of 4.0 % for the SRAA.

The pension liabilities represent actuarial present value of accrued pension benefits over the actuarial value of net assets available for benefits.

Pension liabilities as of March 31 are as follows:

			2004	2003
	Pension plan LARAA	Pension plan SRAA	(thousands of dollars)	
Accrued benefit obligation	$ 1,950	$ 3,043	$ 4,993	$ 4,211
Deduct				
Pension fund net assets	1,784	-	1,784	1,460
Unamortized actuarial (gain) loss	-	-	-	111
	1,784	-	1,784	1,571
Pension liability	$ 166	$ 3,043	$ 3,209	$ 2,640

Pension expenses for the LARAA and SRAA were $330,000 and $492,000, respectively (2003 - $283,000 and $766,000, respectively)

The Government's contributions related to the LARAA and SRAA during the year were $236,000 and $593,000, respectively (2003 - $266,000 and $610,000, respectively). Contributions by the Members of the Legislative Assembly under the LARAA were $146,000 (2003 - $185,000).

11 LONG TERM DEBT

	2004	2003
	(thousands of dollars)	
Loans payable to Canada Mortgage and Housing Corporation, repayable in annual instalments to the year 2033, bearing interest at a rate of 6.97%. The discounted cash flows approximate the carrying value.	$ 51,906	$ 53,270
Mortgage payable in annual instalments to the year 2020, bearing interest at a rate of 6.803% compounded semi-annually.	5,501	5,674
	$ 57,407	$ 58,944

Principal and interest amounts due in each of the next five fiscal years and thereafter are as follows:

	Principal	Interest	Total
	(thousands of dollars)		
2005	$ 1,649	$ 4,047	$ 5,696
2006	1,765	3,930	5,695
2007	1,890	3,805	5,695
2008	2,023	3,671	5,694
2009	2,167	3,529	5,696
2010 and beyond	47,913	32,717	80,630
	$ 57,407	$ 51,699	$ 109,106

Interest expense on long term debt was $4,374,000 for the year (2003 - $4,124,000). The interest paid on long term debt during the year was $4,157,000 (2003 -$3,867,000).

12 EXPENSES BY TYPE (OBJECT)

	2004	2003
	(thousands of dollars)	
Grants and contributions	$ 130,821	$ 145,960
Salaries and employee benefits	266,702	249,452
Payments for goods and services	463,648	407,240
	$ 861,171	$ 802,652

13 RELATED PARTY TRANSACTIONS

Contributions to related parties

Transactions with related parties and balances at year end, not disclosed elsewhere in the financial statements, are disclosed in this note. During the year, the Government made contributions and grants to the following related parties which are outside of the reporting entity described in Note 1 a):

	2004	2003
	(thousands of dollars)	
Local housing associations and authorities	$ 60,579	$ 59,131

The Government provides funding to many communities, boards, and agencies that offer services to the public, and which operate independently of normal Government operations.

14 CAPITAL LEASE OBLIGATIONS

Capital lease obligations are based upon contractual minimum lease payments for leases in effect as of March 31, 2004.

	2004	2003
	(thousands of dollars)	
Total minimum lease payments	$ 238,489	$ 235,889
Less: imputed interest and executory costs	100,187	103,370
Present value of minimum lease payments	$ 138,302	$ 132,519

Future minimum lease payments for each of the next 5 years and thereafter are:

2005	$ 16,579
2006	16,626
2007	16,673
2008	16,721
2009	16,770
2010 and beyond	155,120
	$ 238,489

Interest expense related to capital lease obligations for the year was $9,984,000 (2003 -$9,922,000) at an implied average interest rate of 7.3% (2003 - 7.3%). The capital lease obligations expire between 2013 and 2024.

15 COMMITMENTS

The Government has entered into agreements for, or is contractually committed to, the following payments subsequent to March 31, 2004:

	Expiry Date	Total (thousands of dollars)
Canada Mortgage and Housing Corporation	2038	$ 365,838
Commitments under operating leases	2023	277,481
Capital commitments	2010	184,755
Policing agreement	2012	143,800
Other commitments	2010	45,841
		$ 1,017,715

Commitments by fiscal year are as follows:

2005	$ 209,484
2006	143,857
2007	77,014
2008	67,721
2009	62,046
2010 and beyond	457,593
	$ 1,017,715

In accordance with a Declaration of Trust Agreement, the Canada Mortgage and Housing Corporation (CMHC) transferred its ownership interest in territorial rental and loan portfolios to the Northwest Territories Housing Corporation as trustee. The Northwest Territories Housing Corporation in turn transferred this interest to the Nunavut Housing Corporation (Corporation). The Corporation assumed full responsibility and liability for the social housing programs related to the portfolio and receives annual funding from CMHC to manage these programs. The agreement and funding expire in 2038.

A portion of this funding is used to make payments on portfolio-related CMHC mortgages of $136,572,000 maturing between 2005 and 2038, plus interest of $229,266,000 at interest rates ranging from 4.5% to 21.5%. As the related mortgages mature, the Corporation obtains clear title to CMHC's share of the book value of the respective assets. Until clear title is obtained, CMHC is entitled to its respective share of any gains on the disposal of any portfolio assets.

The portfolio assets and mortgages, held in trust, are recorded only as a commitment in these financial statements. Additionally, since CMHC retains the annual mortgage-related funding to make the mortgage payments, neither the funding nor the mortgage payments are recorded by the Government.

16 CONTINGENCIES

a) Post-division adjustments

The agreement governing the division of assets and liabilities between the Government of Nunavut and the Government of the Northwest Territories as at April 1, 1999 sets out a mechanism which provides for post-division adjustments.

The period for such adjustments is unlimited, and such adjustments would be made in a variety of specified circumstances such as the settlement of litigation related to events prior to the date of division. In such an event, there is an opportunity for one of the governments to file a claim against the other government to share in costs. Post-division adjustments will be recognized in the year the liability can be reasonably estimated.

b) Environmental restoration costs

As circumstances and funding have permitted, the Government has been addressing the problem of environmental liabilities. This process has consisted, in a number of departments, of identifying sites of potential liability, and, if necessary, for each such site and, on an ongoing basis, remediating the site. Costs of remediating the sites are charged to operations as incurred.

Sites in, or in close proximity to, communities have been identified where environmental liabilities may exist. Assessments are being done on an ongoing basis and remediation plans are in place for those sites where environmental hazards have been identified. In addition, fuel caches outside communities have been identified and a program of ongoing site inspection, and, where necessary, drum removal and remediation is in place. There are however, a significant number of existing sites where, due to remoteness or the small number of drums involved (with the potential for only limited local contamination), formal site inspections have yet to be made.

The Government will continue with its program of site inspection, assessment and remediation on an ongoing basis. While estimates of the costs attributable to the Government are not yet available, the Government will continue to work in a practical manner towards the determination and recognition of environmental liabilities.

In those cases where the cost of remediating sites is quantifiable, an estimate of the liability is accrued. As of March 31, 2004, no costs have yet been quantified so no liability has been accrued.

c) Litigation

More individuals have come forward alleging abuse by a former schoolteacher in a region of Nunavut that was formerly part of the Northwest Territories. Pursuant to agreements negotiated prior to the division of the territories, the Governments of Nunavut and the Northwest Territories will jointly defend the action. The costs of defending the action and any damages that may eventually be awarded will be shared by the two Governments 44.34% and 55.66% respectively. An estimate of the loss arising from these suits, if any, cannot be determined at this time.

17 FINANCIAL INSTRUMENTS

The fair value of short term financial instruments, including accounts payable and accrued liabilities, cash and temporary investments, due from Canada and revenues receivable approximate their carrying amounts because of their short term to maturity.

The fair value of the Government's long term financial instruments, including long term debt, capital lease obligations, designated cash and investments, long term investments and loans receivable are detailed in the related notes. Where fair value amounts are not detailed, the carrying amounts approximate their fair value.

18 OVER-EXPENDITURES

Expenditures of certain government departments for the year exceeded appropriations. Over-expenditures by department are as follows: Health and Social Services $8,465,000, Justice $602,000 and Sustainable Development $134,000. This contravenes Section 32 of the *Financial Administration Act* which states "...no person shall incur an expenditure that causes the amount of the item set out in the Estimates on which the appropriation is based to be exceeded".

19 COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform to the current year's presentation.

GOVERNMENT OF NUNAVUT

SCHEDULE A

Consolidated Schedule of Revenues by Source
for the year ended March 31, 2004
(thousands of dollars)

	2004	2003
From Canada		
Formula Financing Agreement	$ 691,180	$ 661,783
Transfer payments	98,360	87,442
	789,540	749,225
Revenues generated by Nunavut		
Taxes	37,930	50,552
General	42,020	28,959
Sales		
Liquor Revolving Fund (net of cost of goods sold of $1,799,000; 2003 - $1,516,000)	2,494	2,567
Petroleum Products Revolving Fund (net of cost of goods sold of $66,658,000; 2003 - $70,387,000)	13,542	10,808
	95,986	92,886
Total revenues	$ 885,526	$ 842,111

Consolidated Schedule of Tangible Capital Assets

as at March 31, 2004
(thousands of dollars)

	Buildings	Capital Lease Buildings	Storage	Tank Farms	Equipment	Infrastructure	Land	2004	2003
Cost of tangible assets									
Opening balance	$ 665,325	$ 145,782	$ 39,713	$ 100,673	$ 18,588	$ 103,114	$ 317	$ 1,073,512	$ 972,748
Additions	48,077	9,025	339	6,550	1,182	11,007	-	76,180	103,613
Disposals	(3,117)	-	(35)	-		(70)	-	(3,222)	(2,849)
Closing balance	710,285	154,807	40,017	107,223	19,770	114,051	317	1,146,470	1,073,512
Accumulated amortization									
Opening balance	(130,350)	(15,767)	(7,171)	(12,556)	(11,210)	(11,699)	-	(188,753)	(154,604)
Amortization for the year	(19,108)	(5,044)	(1,219)	(3,514)	(3,299)	(3,543)	-	(35,727)	(34,391)
Disposals	275	-	-	-	-	3	-	278	242
Closing balance	(149,183)	(20,811)	(8,390)	(16,070)	(14,509)	(15,239)	-	(224,202)	(188,753)
Work in progress	66,964	-	126	5,219	-	9,238	-	81,547	42,683
Net book value	$ 628,066	$ 133,996	$ 31,753	$ 96,372	$ 5,261	$ 108,050	$ 317	$ 1,003,815	$ 927,442
Estimated useful life	30 years	30 years	30 years	30 years	5 years	30 years			